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SPECIAL REPORT

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A DEFICIT IN THE MAKING

January 12, 1984

Highlights

- Supplementary appropriations totaling \$1.8 million have been approved without revenues to support them in the first six months of fiscal year 1984.
- The City has agreed with the state Department of Revenue to provide a detailed revenue analysis showing funding support for each supplementary appropriation. The City has not complied with this agreement to date.
- The Flynn Administration should present a detailed revenue analysis with each supplementary appropriation order, including those funding salary increases.
- Departments affected by wage level increases this year should be required to absorb all or a portion of the cost.

On December 28, 1983, the Boston City Council approved, with then Mayor-elect Flynn dissenting, supplementary appropriation requests from Mayor White of \$190,000 for the Listing Board to help pay for the annual city census and \$790,000 for the Election Department. The Mayor's appropriation orders indicated that funds for these additional expenses would come from taxation even though Boston set its tax rate on November 2, 1983, at which time all of its property tax revenues were allocated.

Since setting the tax rate the City has approved six supplementary appropriation orders for an aggregate of \$1.8 million, all to be funded through taxation. This practice is reminiscent of last year when the Mayor recommended and the City Council approved, supplementary appropriations totaling \$28.7 million. The City ended the year with an operating deficit of \$36.6 million largely due to insufficient revenues to support the additional expenditures. It should be noted that the six recently approved orders are in addition to the reallocation of \$3 million from the City's debt service account to 22 other departmental accounts.

Tax Rate Agreement

On June 30, 1983, after having incurred a FY1983 operating deficit of \$36.6 million, the City of Boston signed an agreement with the state Department of Revenue which expressed a mutual desire to forestall the creation of future deficits. In regard to supplementary appropriations, the City agreed that after setting the tax rate, all appropriation orders submitted by the Mayor to the City Council for approval would be accompanied by a detailed analysis of revenues indicating the source of funds to support the additional expenses. The agreement recognizes that the City Council shares equal responsibility with the Mayor for any deficits incurred due to appropriations approved without consideration of supporting revenues. Nevertheless, to date, six supplementary appropriation orders have been submitted without the required revenue analysis and all have been approved.

Funding Renegotiated Wage Levels

The collective bargaining agreements between the City and its 23 bargaining units provide for wage levels to be renegotiated this year. Combined with the recently ratified school employee contract, the potential financial impact of readjusted wage levels could reach \$30 million, with no certainty as to how this expense will be funded or absorbed. On July 27, 1983, the Research Bureau issued a Special Report warning that

appropriations for both city and school operations did not include funds for wage hikes.

The funding of collective bargaining increases is especially critical this year in light of the Bureau's projection of a City shortfall of up to \$40 million in fiscal year 1985. If wages renegotiated this year are not supported by existing revenues or absorbed by each department by year-end, the resulting deficit would have to be raised next year, adding to an already serious problem.

Recommendations

1. All supplementary appropriation orders submitted to the City Council by Mayor Flynn should be accompanied by a detailed revenue analysis and/or expenditure reduction plan outlining specifically how the requested appropriation will be supported this year.
2. Supplementary appropriations for collective bargaining should be viewed in a city-wide context with regard to total cost and funding strategy. No one contract should be treated independently without consideration of the City's aggregate funding requirements. Departments affected by wage level increases should be required to absorb all or a portion of the total cost.
3. The Mayor and City Council, when acting on school supplementary appropriation orders, should stipulate in each case that the additional amount will not be added to the School Department's appropriation base of \$224.5 million. No other school committee in the Commonwealth enjoys a guaranteed base. The Mayor and City Council are responsible for setting the tax rate and raising funds for all city services. They should have authority to review school operations and decide final resource levels for all departments based on total available resources and service priorities. The appropriation base of \$224.5 million does not limit additional resources for public education. It is incumbent upon the School Committee and Superintendent to demonstrate the School Department's need for funds beyond the base and to show their effective management of available resources for educational purposes. On December 28, 1983, Mayor White submitted his supplementary order for the first year costs of the renegotiated teachers' contract. He stipulated that the additional amount would not be added to the statutory base. The City Council has yet to act on the order.
4. Revenue generated from the sale of City-owned garages should not be used for operational expenses. Such a practice represents poor fiscal policy. This year the City is already depending on \$72 million of non-recurring, one-time revenues for operations. Included in this total is \$53.7 million of Tregor-related funds and \$18.5 million from the sale of garages. The use of more than \$18.5 million from the sale of garages will only dig Boston into a deeper hole next year.

Samuel R. Tyler
Executive Director

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